

Message Text

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15

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 L-03 SCEM-02 INT-08

DRC-01 /111 W

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R 142235Z SEP 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 3739

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

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E.O. 11652 - N/A

TAGS: ENRG, EAID, BEXP, ES

SUBJECT: CERRON GRANDE CIVIL WORK CONTRACT TO MORRISON KNUDSON

REF: SAN SALVADOR 2455, A-102

1. THE LOCAL IDB REPRESENTATIVE IS CERTAIN THAT CEL (THE GOES HYDROELECTRIC AUTHORITY) AND US CONSTRUCTION FIRM MORRISON-KNUDSON WILL SIGN A COMMITMENT BY SEPTEMBER 21, FOR THE CIVIL WORKS CONTRACT OF THE CERRON GRANDE PROJECT WITH A PRICE TAG OF 95 MILLION COLONES (\$38 MILLION). THE IDB AND THE MINISTRY OF ECONOMY SHOULD APPROVE THE CONTRACT BY MID-OCTOBER AND ACTUAL WORK AT THE SITE SHOULD BEGIN BY MID-NOVEMBER.

2. AS REPORTED IN REFERENCES, MORRISON-KNUDSON'S JUNE 26 BID, ALTHOUGH THE LOWEST OF FOUR AT \$48 MILLION, WAS \$13.6 MILLION ABOVE HARZA'S (CEL'S US ENGINEERING CONSULTANT) ESTIMATE.

SINCE JUNE CEL HAS NEGOTIATED AND APPARENTLY FINALLY REACHED
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A MUTUALLY ACCEPTABLE AGREEMENT WITH MORRISON-

KNUDSON. THERE WERE NO CHANGES IN THE TAX PROVISIONS, CONTRARY TO WHAT WE HAD BEEN TOLD EARLIER. SOME CHANGES WERE MADE IN THE SPECIFICATIONS, NAMELY ELIMINATIONS OF SOME TRIMMINGS SUCH AS MONUMENTS, ETC. CEL IS GIVING M-K EIGHT PERCENT ON FIXED COSTS AND 25 PERCENT OF ANY SAVINGS ON FIXED COSTS UP TO 10 PERCENT OF THE AGGREGATE VALUE (THERE IS A PENALTY FOR OVERRUN BUT A LESSER PERCENTAGE). M-K'S MR PERKINS RETURNS HERE SEPTEMBER 17 TO DISCUSS DETAILS AND SIGN THE COMMITMENT BY WEEK'S END. THE IDB REPRESENTATIVE BELIEVES M-K WILL COMMENCE WITH START-UP PREPARATIONS AS SOON AS THE COMMITMENT IS SIGNED. HE COMMENTED THAT M-K'S REDUCTION OF PRICE BY THIS AMOUNT REVEALS THE EXTENT OF "FAT" IN THE INITIAL BID.

3. ON JULY 24, AFTER SOME TEN DAY'S DELAY DUE TO OPPOSITION (AND SOME PCN) DEPUTIES QUESTIONING OF INCREASES IN COST ESTIMATES, THE LEGISLATIVE ASSEMBLY APPROVED CEL'S BUDGET FOR CERRON GRANDE AND THE GEOTHERMAL PROJECT AT AHAUCHAPAN. LEGISLATIVE AUTHORIZATION FOR THE IDB AND IBRD LOAN WAS GIVEN EARLIER. THE TOTAL OF 245 MILLION COLONES IS PROVIDED AS FOLLOWS: 56.5 MILLION FROM CEL'S RESOURCES, 25.0 MILLION FROM A BOND ISSUE, AND 163.5 MILLION FROM EXTERNAL SOURCES (IBRD AND IDB). ITS EXPENDITURE IS 200 MILLION FOR CERRON GRANDE, 50 MILLION FOR THE GEOTHERMAL PROJECT, AND 5 MILLION FOR AN ELECTRICITY DISTRIBUTION CENTER. (COPY OF THE DECREE BEING POUCHED ARA/CEN/ES).
MOSKOWITZ

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONTRACTS, DAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SANSAS03528
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: SAN SALVADOR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730934/aaaaaymy.tel
Line Count: 86
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: SAN SALVADOR 2455, A-102
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 16 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16-Jan-2002 by martinjw>; APPROVED <28 FEB 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CERRON GRANDE CIVIL WORK CONTRACT TO MORRISON KNUDSON
TAGS: ENRG, EAID, BEXP, ES, IDB, MORRISON-KNUDSON
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005